

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

June 4, 2002



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

The enclosed report prepared by Stephens & Lawson, PSC, Certified Public Accountants, presents the Nelson County Sheriff's Settlement - 2001 Taxes.

We engaged Stephens & Lawson, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Stephens & Lawson, PSC, evaluated the Nelson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
NELSON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

June 4, 2002

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
NELSON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES

June 4, 2002

The Nelson County Sheriff's 2001 settlement audit was contracted to Stephens & Lawson, PSC through a request for proposal (RFP). We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected net taxes of \$10,574,873 for the districts for 2001 taxes. The Sheriff distributed taxes of \$10,563,219 to the districts for 2001 taxes. Taxes of \$2,741 are due to the districts from the Sheriff and no refunds of taxes are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Eliminate The Deficit Of \$1,192 In The Tax Account
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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Independent Auditor's Report

We have audited the Nelson County Sheriff's Settlement - 2001 Taxes as of June 4, 2002. This tax settlement is the responsibility of the Nelson County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Nelson County Sheriff's taxes charged, credited, and paid as of June 4, 2002, in conformity with the modified cash basis of accounting.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
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Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance.

- The Sheriff Should Eliminate The Deficit of \$1,192 In The Tax Account
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed-
October 16, 2002

NELSON COUNTY
MIKE NEWTON, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

June 4, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,738,749	\$ 679,150	\$ 3,978,479	\$ 1,728,588
Tangible Personal Property	145,971	44,287	177,522	581,466
Intangible Personal Property				246,542
Fire Protection	691			
Taxes Increased Through Erroneous Assessments	775	382	2,278	810
Franchise Corporation	96,374	30,425	203,681	
Distilled Spirits Taxes	480,827	145,986	867,666	
Additional and Supplemental Billings	1,103	385	1,390	1,860
2000 Supplemental Billing	7	2		7
Limestone, Sand, and Mineral Reserves	651	224	2,325	647
Bank Franchise	85,582			
Penalties	10,055	4,001	25,731	10,571
Adjusted to Sheriff's Receipt	1,625	925	10	1,601
Gross Chargeable to Sheriff	<u>\$ 2,562,410</u>	<u>\$ 905,767</u>	<u>\$ 5,259,082</u>	<u>\$ 2,572,092</u>
<u>Credits</u>				
Exonerations	\$ 9,588	\$ 3,846	\$ 25,944	\$ 10,282
Discounts	39,112	13,445	76,181	37,565
Delinquents:				
Real Estate	20,948	8,682	56,666	20,791
Tangible Personal Property	3,842	1,166	10,391	10,117
Intangible Personal Property				295
Bankruptcy	1,080	328		598
Uncollected Franchise	4,716	1,336	8,132	
Unbilled Distilled Spirits Taxes		1,000		
Total Credits	<u>\$ 79,286</u>	<u>\$ 29,803</u>	<u>\$ 177,314</u>	<u>\$ 79,648</u>
Net Tax Yield	\$ 2,483,124	\$ 875,964	\$ 5,081,768	\$ 2,492,444
Less: Commissions*	<u>105,820</u>	<u>34,592</u>	<u>111,799</u>	<u>106,216</u>
Net Taxes Due	\$ 2,377,304	\$ 841,372	\$ 4,969,969	\$ 2,386,228
Taxes Paid	2,374,335	840,045	4,965,105	2,383,734
Refunds (Current and Prior Year)	<u>1,684</u>	<u>799</u>	<u>4,662</u>	<u>1,768</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 1,285</u>	<u>\$ 528</u>	<u>\$ 202</u>	<u>\$ 726</u>

* and ** See Page 4

NELSON COUNTY
MIKE NEWTON, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
June 4, 2002
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	5,760,407
2.2% on	\$	5,081,768
1% on	\$	81,125

** Special Taxing Districts:

Library District	\$	406
Extension District		106
Soil Conservation District		13
Northeast Nelson Fire District		3
		<hr/>
Total Due Districts	\$	<u>528</u>

The accompanying notes are an integral part of the financial statement.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

June 4, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial state has been prepared on a modified basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when distributions are made to the taxing districts and others. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 13, 2001 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$498,588 of public funds uninsured and unsecured.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 4, 2002
(Continued)

Note 2. Deposits (Continued)

The Sheriff's deposits are categorized below to give an indication of the level of risk assumed by the Sheriff as of November 13, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 7,000,000
Insured by Federal Deposit Insurance Corporation	100,000
Uncollateralized and uninsured	<u>498,588</u>
Total	<u>\$ 7,598,588</u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 27, 2001 through April 30, 2002.

Note 4. Interest Income

The Nelson County Sheriff earned \$8,333 as interest income on 2001 taxes. As of June 4, 2002, the Sheriff owes \$326 in interest to his fee account and is due a refund of \$114 in interest from the school district.

Note 5. Sheriff's 10% Add-On Fee

The Nelson County Sheriff collected \$30,010 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs and Fees

The Nelson County Sheriff collected \$2,114 of advertising costs and fees allowed by KRS 424.330(1) and KRS 134.440(2). As of June 4, 2002, the Sheriff owes \$940 in advertising costs to the county and \$1,174 in fees to his fee account.

Note 7. Deficit Balance

Based on available records there is a \$1,192 deficit in the Sheriff's official tax account. We were unable to determine the cause of this deficit. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule.

SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

NELSON COUNTY
MIKE NEWTON, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

June 4, 2002

Assets

Cash in Bank	\$	4,015
Receivables-		
School District		114
2002 Fee Account - Commission Overpayment		22
Total Assets	\$	<u>4,151</u>

Liabilities

Paid Obligations-			
Outstanding Checks		\$	103
Unpaid Obligations-			
2001 Taxes Due Districts:			
State	\$	726	
Nelson County Fiscal Court		1,285	
School District		202	
Library District		406	
Extension District		106	
Soil Conservation District		13	
Northeast Nelson Fire District		3	
		<u>2,741</u>	
Advertising Costs -			
Nelson County Fiscal Court			940
Coastal Telecom Refund			58
Amounts Due 2002 Fee Account:			
Interest	\$327		
Advertising Fees	1,174		
		<u>1,501</u>	
Total Liabilities			<u>\$ 5,343</u>
Total Fund Deficit as of June 4, 2002			<u><u>\$ (1,192)</u></u>

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COMMENTS AND RECOMMENDATIONS

NELSON COUNTY
MIKE NEWTON, SHERIFF
COMMENTS AND RECOMMENDATIONS

June 4, 2002

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Eliminate The Deficit Of \$1,192 In The Tax Account

Based on available records, there was a deficit of \$1,192 in the Sheriff's tax account. We were unable to determine the cause of this deficit. We recommend the Sheriff deposit \$1,192 from personal funds into the tax account to eliminate this deficit.

Sheriff's Response:

None.

2. The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 13, 2001, \$498,588 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



To the People of Kentucky
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Nelson County Sheriff's Settlement - 2001 Taxes as of June 4, 2002, and have issued our report thereon dated October 16, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nelson County Sheriff's Settlement - 2001 Taxes as of June 4, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The Deficit of \$1,192 In The Tax Account
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
October 16, 2002

